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Dallas Sales Meeting Speech
Suzanne LeVan - Vice President, Premium Brands

Good afternoon. I'd like to spend the next 30 minutes talking about building equity and using equity -- from the Premium Brand perspective.

You might say that without brand equity, all of our brands are vulnerable not only to the actions of our most formidable competitors -- but also to our least intelligent, most desperate competitors as well.

And, fortunately, over the years we've introduced and built a stable of brands with distinct points of differentiation. Virginia Slims, a brand designed exclusively for and reflective of contemporary women. Benson & Hedges, the 100mm cigarette that signals quality, sophistication and style. Merit, the brand that proudly boasts a heritage of delivering great light taste at every level of low tar. Parliament, a geographically concentrated brand that personifies relaxing, aspirational smoking moments.

And, not unlike a savings account, we've made regular deposits to keep building equity for our brands. There are as many ways to build brand equity as you can imagine - through the product itself, how it's packaged, how it's advertised and how it's promoted. Each tool helps us build equity so that each brand can enjoy a unique, distinct place in the market from which it can more easily defend itself from competitive initiatives and from

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which it can maintain a strong base from which to grow.

Under the umbrella of building brand equity and protecting the value of these franchises that have been entrusted to our care, I want to focus on 4 areas.

First, how we're maintaining distinct, relevant positionings for these brands.

Second, making sure the product is available in the style or format that a current or potential consumer would prefer -- which includes adding new packings and upgrading the existing ones.

Third, seeing that our brands are fairly priced and represent a good value for the price paid.

Fourth, thanking and rewarding our consumers for their loyalty and offering compelling inducements for likely competitive smokers to switch.

First and foremost, we make sure that each brand has a unique and distinct positioning in the consumer's mind. That it single-mindedly stands for something meaningful. That it's relevant. And though everything a brand does in communicating with consumers is meant to reinforce its positioning, a brand's advertising is probably the easiest way to illustrate what the brand is about.

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Each of the Premium Brands has a new campaign that I'd like to talk about.

I hope that most of you have begun to see Merit's new advertising campaign in your favorite magazines. We call the campaign "Think Light" and this particular execution is called, not surprisingly, Sumo. The "Think Light" campaign is a bit different from previous Merit advertising. Previous campaigns emphasized that adult smokers could switch down to lower tar and that Merit would have a low tar packing for them that provided more taste than they'd expect. That's still true. But "switching down" is more focused on switchers and competitive smokers than it is focused on defending the core franchise.

The "Think Light" campaign addresses a number of insights that Merit and competitive smokers have given us. "Low tar" and "switching down" aren't as big a message to many Lights smokers as is the message of Light Taste and Light Attitude. Light Taste and Lightness in general is a bigger idea that both current Merit smokers as well as potential Merit smokers find more appealing. Here's an execution we call Sled.

Merit smokers in particular consider themselves thoughtful and optimistic. So the visuals you'll see in this campaign will be a little more thoughtful and unusual as compared with other cigarette advertising. They demonstrate the positiveness of Thinking Light and that Merit is the Think Light brand. In this execution entitled Rhino, it's the

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power of thinking light that enables us to believe that the Rhino can walk across the frozen glacier.

A glowing Merit Ultra Lights pack is featured in each ad with the copyline "Lighten up with Merit." The "Think Light" campaign, we believe, works harder against Merit's core position. And adult smokers that we've tested these ads with, Merit and other light smokers, respond very favorably.

Benson & Hedges was introduced 30 years ago with a premium and sophisticated image. At the time, it's unique 100mm length reinforced that positioning. B&H's equity may have suffered a bit over time, as 100mm cigarettes became more common and other brands were introduced with sophisticated-looking advertising and stylish packaging. In the more recent past, with the signing of the Master Settlement Agreement which precluded us from continuing to run our Moments of Pleasure campaign (that's the one where B&H cigarettes were positioned to have almost human-like characteristics), we re-examined where the brand was in the marketplace. B&H hadn't been a priority brand and had suffered significant share losses. It's menthol packings, however, have continued to outperform the non-menthol packings despite less support at retail.

The new campaign which we call "Smoother Place" is an urban menthol-focused interpretation of B&H today. The visuals depict stylish, sophisticated smokers enjoying B&H in appropriate upscale

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situations -- in clubs, at parties, in restaurants and the like. This shot, which is called "Menthol After Dark" is our favorite of the three ads currently running. The woman depicted in this ad looks sophisticated and stylish and is caught in a perfect moment of smoking enjoyment.

Intersecting the pack in the lower right hand corner of the ad are the words "Benson & Hedges Menthol. It's a smoother place to be." The "Smooth Place" campaign not only reinforces the sophisticated and stylish heritage of B&H, but also reinforces a key product attribute for menthol smokers, smooth taste. And the urban environment in which the Smooth Place campaign lives allows us visually incorporate key ethnic audiences, which have always been important to the B&H franchise.

Here's an ad called "The mood is menthol", showing a smart, sophisticated group out for dinner in a private setting. And in "Let the menthol move you." you see a stylish couple dancing in a nightclub.

Interestingly, although the campaign visuals are retouched to have a distinctive green hue, non-menthol smokers also respond favorably to them in that the people and situations are consistent with what B&H stands for.

Parliament and Virginia Slims continue to be priority brands in the OPB group.

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Even though Parliament is a not a national brand, I'm sure you're familiar with it's campaign "Out of the Clear Blue" which is being used to support the introduction of the full flavor packings. Parliament's Perfect Recess advertising ran for many years and did a great job of portraying aspirational, relaxed smoking moments in idyllic resort settings.

The "Out of the Clear Blue" campaign is an evolution of the Perfect Recess campaign that plays up the energy and sociability of the brand's younger adult smokers. This execution, "Pool Bar", contains the distinctive and smooth blue color cues Parliament is famous for, as well as the dramatic use of sky and water. The darker blue coloration helps reinforce full flavor. And the addition of the water-side bar focuses the campaign more strongly against young adult smokers. And Parliament's appeal among young adult smokers in its core markets is the reason, after all, why we're investing in the growth of this brand.

This execution, called "Pier", likewise maintains Parliament's most distinctive elements, while adding the sociability of a different bar situation.

And this last execution, entitled "Light Up", goes one step further in speaking more directly to Parliament's younger adult smoker audience by depicting a South Beach- style location and a more prominent placement of the hero.

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Virginia Slims will be unveiling some new advertising later this year and I'm happy to give you a sneak peek at it. Slims has always enjoyed a leadership position as the premier brand design especially for women. In the past couple of years we've been working hard to make sure that our advertising to adult women smokers remains fresh and relevant. We call the new campaign "Find your voice" because the ads are designed to celebrate the empowerment of women in the diverse world in which we live. You'll see a variety of expressions of being a woman. American. Asian. African. Latina. All parts of the Virginia Slims franchise. While the visuals are multi-cultural and multi-ethnic, the message is singular.

Let's look at some of the executions...

In this ad, the copy (which plays an integral part in expressing the attitude of the campaign) says "I look temptation right in the eye and then I make my own decision. Virginia Slims. Find you voice."

Here the copy is printed in Swahili and English and reads "No single institution owns the copyright for beauty."

Here, in both Chinese and English were told "Never mistake my silence for compliance."

This confident Slims woman is juxtaposed with copy that reads "It's not so much breaking rules as it is creating options."

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And finally, "I made a promise to bring romance back into my life, to kiss negativity good-bye and to learn to love the way I look."

"Find your voice" we believe will resonate well with women smokers because it reflects what it feels like to be a woman today. It's not about feminism. It's not about gender differences. It's about personal expression and a shared individuality. It's about finding your voice.

We hope that each of these new campaigns will build equity by reinforcing the core position of each of the premium brands. And we think they'll also be advertising that people will talk about.

I've said that building equity includes making sure that the product is available in the format that current and potential consumers prefer. This can include a number of initiatives - from simply maintaining proper distribution and merchandising for existing packings, upgrading the look and feel of existing packings, the addition of line-extensions or the expansion of distribution beyond the traditional geography of a brand.

For a brand like Parliament, this has been reflected in a number of initiatives - like the launch of the lights menthol box packing and the 100's rounded corner box. And, most importantly, the current launch of full flavor regular and menthol box packings, which will ensure that Parliament will be available in the formats that young adult smokers

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prefer. The introduction of the full flavor packings gave us a chance to give the existing lights packings a more modern appearance through subtle changes in the type face treatment on the word "Lights" to more obvious ones like the use of a V-shaped innerframe on the box packings that echoes the Parliament chevron.

And next year, we're looking to test octagonal king size box packs to potentially replace the current kings box packings. This style packaging gets high purchase intent scores among competitive young adult brands like Camel.

Geographically, Parliament has moved from its strength in places like New York to all of Region 1, Florida and Chicago. We plan to continue to invest off of Parliament's strong base and geographically broaden its support next year.

This fall, Virginia Slims will introduce box versions of its full flavor regular and menthol packings. This effort will help make the full flavor part of the franchise more appealing and relevant to some key competitive 100's smokers. And since the Full Flavor 100's Box segment has grown 65% over the past two years to now represent 4.6% the total industry, I hope you'll agree that these line-extensions are an obvious and easy way to make Virginia Slims more competitive.

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I know you're aware of the packaging graphics update we gave to Benson & Hedges to maintain its relevance as a premium, sophisticated smoke.

Another piece of news on the packaging front is Merit's upcoming upgrade. We've not only updated the graphics to be more contemporary and colorful. We're also changing all of Merit's box packings to the round corner box format.

In a time where Merit smokers often see comparable, popular premium brands regularly selling for less than Merit sells for, we intend to add value when we can to help justify the premium Merit smokers often pay over other premium brands.

All of these efforts are important to build equity and maintain competitiveness because packaging is a marketing vehicle our consumers experience day in, day out.

Something that I'm sure is as near and dear to you as it is to me is seeing that our brands are fairly priced and represent a good value to the consumer.

Each of the 50 million or so adult smokers in this country is a unique individual. But there's 1 thing that's common to every one of them. That is the fact that they walks into a retailer to obtain our product. They don't have to read the magazines we advertise in. They don't have to be on our direct mail database. They don't have to redeem coupons

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they see in the Sunday paper. They don't have to save UPC's for merchandise. Not that these tools aren't important and valuable ways to build equity - but the most universal impression we can deliver is at retail.

Virginia Slims, as a priority brand, enjoys the most number of retail promotion windows among the OPB brands. So as price promotion activity has increased, Virginia Slims has been better insulated against share declines versus other premium brands. And, as you can see from this POS, the brand strives to always deliver an equity message in conjunction with the price message. If we were to give them only the price message, what reinforcement are we providing them long term to choose us over similarly priced brands or, better yet, what reinforcement are we providing them to continue to choose our brand when we're not the same price as a competitor.

Parliament, being a priority in its key geographies, likewise has been insulated from some of the pricing activity of late. Unlike Virginia Slims, it's relied on more product promotion - as a means to generate competitive smoker trial. And through some unique permanent POS pieces, like this gravity feed display, Parliament tries to capture the attention of young adult smokers.

Merit and B&H have fewer retail promotional windows. And when they do have a promotional slot, they only are in their key geographies which

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do not overlap Parliament's key geos. As you can imagine, this puts them at a significant disadvantage at retail. And, as such, they must rely on other tools to help keep them fairly priced.

As much as we've worked over the years to build equity into these brands, it does strain the relationship we've built with these loyal smokers to ask them to pay up to 20 cents more per pack over extended periods of time to continue smoking these brands when in the same stores they see other legitimate, popular premium brands selling for less.

I'd like to give you some idea of how we use other tools like direct mail couponing, FSIs and Catalina couponing to help mitigate this price disadvantage.

This year alone Virginia Slims, Merit and B&H will send a combined 2 million smokers on the direct mail database up to 21 coupons each over the course of the year. The individual values of these coupons range from $1.50 off 2 packs to $3.50 off a carton, depending upon a number of factors including whether they've been faithful coupon redeemers in the past. And like the equity messages that we try to build into our retail pieces, our direct mail also strives to reinforce the brands' equities to maintain a competitive point of differentiation.

FSI couponing in your Sunday paper is the least targeted couponing tool that we use to reward current smokers and provide a trial incentive to

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competitive smokers. Virginia Slims, Merit and B&H plan to drop a total of 12 regional FSIs in their key markets over the course of the year. Here, too, we try to leverage brand positioning with sweepstakes, continuity offers and database name generation.

Catalina couponing is a more targeted means of delivering price relief to current smokers and trial offers to competitive smokers. There are over 12,000 supermarkets nationally that have Catalina coupon printers hooked up to the scanning equipment at their registers. Virtually every major supermarket chain, with just a couple of holdouts that we're still working on, is a Catalina store. And PM has category exclusivity in all of these stores.

We can deliver any type of coupon to any type of smoker in these stores. We use it defensively, to offer savings to our own smokers. And we use it offensively to generate continuity of purchase among selected competitive smokers.

So today if you walked into a Winn-Dixie here in Dallas and bought a couple of packs of Misty, you'd get a Buy 2 Get 1 Free coupon for Virginia Slims. And upon returning to the store, if you bought Virginia Slims and redeemed that coupon, you'd get another coupon for $1 off 2 packs on your next Slims purchase. We also use Catalina's supermarket printers to deliver a name generation message to help take that smoker I just described

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and get them into one our direct mail continuity programs.

All in all, it's a marvelous tool to target couponing with the precision of a stealth bomber.

And for brands like Merit and B&H, who don't have much retail promotion and have a significant percentage of their volume moving through supermarkets, it's a tool that can help keep them fairly priced.

We've got a demonstration of the Catalina system set up at the Premium Brand booth which I encourage you to check out.

We use all these tools, retail promotion and visibility, direct mail couponing, FSIs and Catalina to ensure that the brands remain as competitively priced as possible and represent a fair value to our smokers. In layman's terms...

The final area I'd like to talk about in terms of building equity is how we go about thanking and rewarding our consumers for their loyalty.

While there are certainly lots of activities that we engage in that qualify as rewarding our loyal consumers, our direct mail programs and, specifically, the continuity catalogues that we send via direct mail are a proven method of maintaining consumer loyalty - particularly when they are paired with coupons. While this tool can't address or remedy pricing inequities or replace retail

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visibility and promotion - it can, other things being equal, foster a relationship between the consumer and his/her brand that is that much harder for a competitor to penetrate. One of the other nice things about it is that gets directly into a consumer's hands with no additional work required on your part. Of course, the key to making this tool work harder is to capture as many names of a brand's smokers on the database as possible. If we don't know who they are, we can't talk to them.

Let me show you a couple of examples of these programs.

Merit will be sending out its Bright Ideas catalogue to 1 million smokers this month. A variety of items, all fitting under the umbrella of "thinking light" are offered for different UPC values.

Benson & Hedges is likewise sending out a new continuity catalogue to over 700,000 smokers this month. Because we know whether or not a smoker prefers menthol or non-menthol for smokers on the database, we can actually tailor these direct mail catalogues so that menthol smokers get a catalogue that uses those arresting new menthol visuals from the "Smoother Place" campaign and non-menthol smokers get a catalogue with the same items offered that features visuals that reinforce the non-menthol packings.

Virginia Slims likewise rewards its consumers with offers for attractive merchandise that reinforce

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Slim's positioning. Slims latest catalogue, sent to over 1 million adult female smokers, is themed "The Exotic Collection". If you have a chance to stop by the Premium Brand booth, you can glance though the Slims catalogue (among other things). Slims, in particular, tries to create unique, fashionable items that only it could make available to its smokers.

Parliament doesn't currently run a continuity catalogue program like the other premium brands, though it has offered single items for UPC's from time to time. The approach here is a bit different, reflecting the fact that the younger adult smoker base that we're trying to grow isn't always as interested in saving UPC's for merchandise. So for them with, we run other programs to build equity like Parliament Party Zone events.

And speaking of events, I do want to also mention Virginia Slims Dueling Divas, Club Benson & Hedges and Merit Swing Nights. They're all wonderful programs - but unfortunately I don't have time to go into details on each one.

These events and our continuity catalogues let our loyal consumers know we appreciate them.

Mike showed how we continue to build equity for Marlboro. And with a more finite set of resources, we try to do the same for the Premium Brands.

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While Marlboro is universally important to all of us, each of the Premium brands probably holds different degrees of importance to each of you -- depending upon what part of the country you work in, what kind of share the brand has there and how much promotional activity is touched by your hands before reaching the consumer.

But they all exist to serve different audiences and different needs. And with your continued support, we'll keep making deposits to that equity savings account that gives every consumer the reason why they'll continue to choose our premium brands in the future.

And now a premium brand finale.

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